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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Interest Rate Spiral . . .

Both short- and long-term interest rates ratcheted upward sharply in recent weeks reflecting the impact of a variety of negative economic and financial developments. Among the more important: A recent burst of monetary growth above the Federal Reserve's first quarter target ranges, an unexpectedly large bulge in commercial and industrial loans outstanding during the last week in March, pressure on commercial banks' reserve positions and volatile reactions to these developments by financial market participants. As a result, short-term interest rates increased by an average of 100 to 200 basis points during the month ending April 23, while bond yields also moved sharply higher--many to new record highs. Top-quality corporate yields increased from 75 to 100 basis points during the month, and long-term U.S. governments, Federal agencies and municipal bond rates all moved substantially higher.

Despite the upturn in the growth of the monetary aggregates and the resumed rise in the Federal funds rate, no substantial tightening of monetary policy is expected--yet. The levels of both M-1A and M-1B remain either below or within the Federal Reserve's longer-run annual growth targets. In addition, with the "real" economy currently losing momentum, the housing and automobile industries still extremely weak and the nation's thrift institutions again experiencing a renewed round of substantial disintermediation, the central bank will think twice before adopting a significant firming of monetary policy.

On the other hand, should the recent resurgence of money supply growth persist for another few weeks and the economy expand more rapidly than expected, the Fed will have to move aggressively to restrain the growth of bank reserves. What is more, the broader aggregate M-2 is now expanding at a rate in excess of its upper target boundary—at a 10.1 per cent seasonally-adjusted annual rate in the first quarter, well above the six to nine per cent target range for the year as a whole. At a time when massive interdeposit shifts are clouding the significance of short-run changes in the levels of M-1A and M-1B (Financial Digest—April 13, 1981), this trend can not help but dismay the monetary authorities.

. . . Should Run Its Course . . .

Looking ahead, however, the fundamentals still remain positive for the financial markets, suggesting that the recent uptick in interest rates may soon run its course. More specifically, the pace of economic activity has begun to fade. Despite a sizable 6.5 per cent, seasonally adjusted annual rate rise in real GNP in the first quarter of 1981, it is important to note that these statistics are backward, rather than forward, looking. It now appears that the economy slowed in February and March, although it is unlikely that a substantial decline is in the offing. Among the more recent signals that growth will slow: The third consecutive monthly drop in the index of leading economic indicators in February, a modest easing of new factory orders in February (although new factory orders for durable goods only rose strongly in March), and a steep plunge in new housing starts and new building permits issued in February, which was only partially made up in March.

Even the inflation rate's performance may improve somewhat, although substantial relief is still some months away. Hopefully, the worst inflation news is behind us, especially in light of the spreading softness in oil and energy prices. Since energy-related price increases have been largely responsible for the relatively high rates of inflation experienced in recent months, the stabilization of these prices should result in more moderate rates of inflation later this spring. In March, for example, the consumer price index advanced 0.6 per cent month-over-month, even with a two per cent rise in energy prices.

. . . Later This Spring

Another favorable development expected later this spring is a renewed slowing of money supply growth. The recent burst of monetary growth above the Federal Reserve's first quarter target ranges appears primarily related to the sharp rise in NOW accounts and other checkable deposits. In addition, a good-sized portion of the rise in M-1B during the past two weeks may well have reflected tax payment-related credit needs, not any permanent shift into these particular balances.

Finally, short-term business loan demand at the nation's commercial banks remains sluggish. Despite

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a more than $3 billion bulge in commercial and industrial loans outstanding during the last week in March, short-term business loan demand at the nation's commercial banks is comparatively weak, reflecting the combined impact of stiff competition from the commercial paper market as well as stepped-up financing by business in the long-term bond markets. During the 13 weeks ending April 8, for example, commercial and industrial loans outstanding at large weekly reporting banks have contracted at an almost five per cent seasonally-adjusted annual rate, and at an almost eight per cent annual rate during the past eight weeks. Interestingly, business borrowings from foreign branches of U.S. banks increased by $2.7 billion in the first quarter of 1981.

On balance, a slowing in the momentum of the economy, less inflation, sluggish monetary growth, and continued softness in business credit demands should lead to a resumption of short-term interest rate declines before long. Beyond midyear, however, interest rates could rise somewhat, reflecting a stronger pace in private economic activity and—even more important—substantial borrowing requirements from the Treasury.

Food Prices May Rise Faster . . .

Despite the recent declines in agricultural commodity prices and the relatively slow rise in food prices as measured by March's consumer price index, there are some indications that farm products' prices could increase substantially later this year. Supplies

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/15/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	128.505	+ 1.387	+ 1.940
Loans to Depository Inst.	1.142	+ .255	− 1.134
Float	3.376	+ .524	− .511
Total Reserve Bank Credit	143.171	+ 2.214	+ 5.300
Treasury Deposits with Federal Reserve Banks	3.033	+ .170	+ 1.777
Currency Outside Banks	121.799	+ .951	+ 8.739
Member Bank Reserves:			
Required	39.620	+ .783	− 5.016
Excess (Deficiency)	.275	+ .224	+ .068
Total Reserves Held	39.895	+ 1.007	− 4.948
Net Borrowed Reserves	.718	+ .044	− 1.211
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.171	+ .133	+26.980
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M-1A	363.4	− 16.5‡	− 1.6‡
M-1B	429.0	+ 11.8‡	+ 9.3‡
M-2 (March '81)	1,714.2	+ 9.8	+ 10.3
L (January '81)	2,393.3	+ 13.4	+ 10.5

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 4/24/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.55%	13.52%	12.95%
* Federal Agencies	14.30	14.30	14.15
* Project Notes—Taxfree (46% Taxable Equivalent)	12.04	13.24	12.87
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	15.00	14.75	

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	13.50%	May	14.80%
15- 29 days	14.00	Jun.	14.75
30- 59 days	14.50	Jul.	14.70
60-119 days	14.00	Aug.	14.65
120-270 days	13.00	Sep.	14.45
		Oct.	14.40

‡Industrial Paper—Prime			
30- 89 days	14.63%	†Federal Funds Effective Rate	15.50%
90-120 days	14.70		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81n $ 2,827	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81n $ 1,509	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81n 6.5%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Mar '81n 7.2%	12.0%	15.6%
Change in Producer Prices*	Mar '81 15.6%	9.6%	13.2%
Civilian Employment (Thousands of Persons) †	Mar '81 98,412	97,927	97,628
Unemployment as % of Civilian Labor Force†	Mar '81 7.3%	7.3%	6.3%
Personal Income*	Mar '81 $ 2,335	$ 2,317	$ 2,101
Leading Indicators Composite Index (1967=100) †	Feb '81 136.3	136.7	134.1
Industrial Production Index (1967=100) †	Mar '81 151.7	151.1	152.1
Net Change in Consumer Installment Credit†	Feb '81 $ 2.00	$ 0.87	$ 2.40
U.S. Merchandise Trade Balance†	Feb '81 −$ 2.16	−$ 4.37	−$ 4.79
Plant and Equipment Expenditures*	2nd Q'81 $317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Mar '81 1,284	1,214	1,040
New Construction Expenditures*	Feb '81 $ 252.5	$ 261.9	$ 248.8
Total Business Inventories†	Feb '81 $ 470.0	$ 465.1	$ 435.2
Total Business Sales†	Feb '81 $ 345.2	$ 345.6	$ 310.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

of pork and beef continue to tighten as ranchers, confronted with high production costs, have learned from last year's mistakes and are attempting to avoid losses this year. Although the winter wheat crop looks relatively favorable, as topsoil moisture improved in most areas and temperatures moved above normal, substantially more rain will be needed for a successful summer grain crop.

The most recent Department of Agriculture report on planting intentions shows a slight increase in planned acreage for major crops from 1980. However, supplies are still difficult to determine because of several factors. The survey was conducted on March 1, or about two months before farmers actually start planting. The 1981 crop potential depends on timely rainfall during the planting and growing season, but subsoil moisture is still far from adequate in most areas, and many experts have voiced concerns about a repeat of last year's heat and drought in the Farm Belt. Other factors include changes in the cost of production relative to market price, current cash commodity prices, economic conditions and the international political climate—such as last Friday's lifting of the embargo on grain shipments to the Soviet Union by the U.S. government.

. . . As Supplies Tighten

During the first quarter of 1981, red meat supplies were larger and prices lower than expected earlier. This occurred in part because farmers reduced their

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/8/81)	110,971	– 569	+16,425
New York City (4/8/81)	27,417	+ 58	+ 6,354
Commercial Paper (4/8/81)	134,684	+ 1,633	+12,668

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/8/81)	171,228	– 1,554	+ 8,826
New York City (4/8/81)	50,323	– 703	+ 2,627

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/8/81)	424,674	– 5,396	+19,342
New York City (4/8/81)	99,908	– 3,431	+ 8,278

Financial Markets

	Friday 4/24/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.00%	+ .30	+ 1.56
180-Day Bills†	13.93	+ .48	+ 1.50
Longest Bills†	13.25	+ .37	+ 1.43
Recent Issues:			
12⅝s 3/31/83	14.45	+ .36	
13⅜s 3/31/85	14.22	+ .17	
13s 11/15/90	13.65	– .11	
12¾s 11/15/10	13.14	– .15	
Municipals:			
Bond Buyer–20 Bond Index* (4/23/81)	10.80%	+ .10	+ 2.69
Blue List Total ($ Million)	$ 865	+ $ 38	+ $ 176
30-Day Visible Supply ($ Million)	$2,252	– $526	+ $ 734
Total	$3,117	– $488	+ $ 910
Corporates:			
Moody's Aa Composite (4/23/81)	14.59%	+ .26	+ 3.07
Money Mgr.–30-Day Supply ($ Million)	$6,191	+ $426	+ $4,783
Stocks:			
Dow-Jones Averages:			
Industrials	1,020.35	+ 14.77	+ 216.77
Transportation	441.80	– 5.58	+ 200.61
Utilities	106.47	– .69	+ 2.09
65 Stocks	394.16	+ .97	+ 105.43
Standard and Poor's 500 Stocks	135.14	+ .44	+ 29.98
N.Y.S.E. Composite Index	78.05	+ .29	+ 18.32
N.Y.S.E. Avg. Daily Vol. for Week (000's)	59,388	+ 7,493	+ 22,860

* 46% Taxable equivalent 20.00%.

† Bond equivalent.

International Rates

	Friday 4/24/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.63%	15.50%
1 month	16.00	15.88
3 month	16.25	16.44
6 month	16.25	16.44
1 year	15.56	15.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.10%	14.10%
Long Term (7 to 15 yrs.)	14.30	14.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/24/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02817	35.50
Canada	.8375	1.1940
Denmark	.1456	6.8700
France	.1938	5.1590
Germany	.4590	2.1788
Italy	.0009199	1087.00
Japan	.004639	215.55
Mexico	.04186	23.89
Netherlands	.4130	2.4215
Switzerland	.5031	1.9875
U.K.	2.1660	.4617

cattle inventories and slaughtered more animals. They thus sent more meat to market and temporarily drove prices down. Increased slaughter activity led to a four per cent reduction in cattle and calves inventory in feedlots on April 1 from a year ago, to the lowest level for any April since 1975. Another reason was last year's mild winter which caused above average rates of weight gain so that both cattle and hogs reached market weight faster than usual. Also, low forage supplies, due to last year's drought, contributed to increased slaughter of grazing cattle. As a result, beef production in the first quarter was six per cent above a year ago.

According to the USDA planting intentions report, farmers intend to seed only about 2.5 per cent more acres to the 14 major crops than a year ago. However, they plan to plant 0.1 per cent less corn—one of the commodities affected the worst by last year's drought—as soil moisture levels remain very low in some parts of the Corn Belt. Meanwhile, food and industrial demand for corn is expected to expand, exerting upward pressure on prices. Importantly, corn sweetener production is likely to rise with the improvement in economic activity in the second half of the year and increased substitution for sugar. Similarly, gasohol production is expected to expand.

Despite the decline in planned corn acreage, total feed grain planting indications were up 600,000 acres, mostly as a result of more barley and oats acreage, both of which are less affected by adverse weather conditions. Should the dry weather continue, soybean and corn planting may decrease still further, and may be substituted in the South and Midwest by grain sorghum, which requires less moisture and is more drought tolerant. H

Manufacturers Hanover Geobankers in Guangzhou

(Canton)

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